

Entrepreneurial Competencies on Dynamic Capabilities towards Entrepreneur Performance in Sri Lanka's Community Based Tourism

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Abstract *This paper provides an overview of entrepreneurship in Sri Lanka's Community Based Tourism (CBT). This investigates the impact of entrepreneurial competencies on dynamic capabilities towards homestay entrepreneur performance in community based tourism. Recent researches conducted in the Sri Lankan context revealed that the vast majority of homestay operators are not effective and homestay tourism is not a viable alternative tourism offering in Sri Lanka. However, homestay tourism has been recognised as a key industry for developing entrepreneurs and contribute significantly to the Sri Lankan economy. The principles of Resource Based View (RBV) theory as well as Dynamic Capability View (DCV) theory were used as the basis for the current research. Data were collected from 252 homestay entrepreneurs and analysed using Structural Equation Modelling (SEM). As per the findings, entrepreneurial competencies were crucial for dynamic capability and both are important for entrepreneur performance. The association between entrepreneurial competencies and homestay entrepreneur performance is significantly mediated by dynamic capability. This research will aid in the creation of productive entrepreneurs within the community based tourism sector in Sri Lanka.*

Keywords: *Community Based Tourism, Entrepreneurial Competencies, Dynamic Capability, Entrepreneur Performance*

INTRODUCTION

The concept of entrepreneurship has grown in popularity across the world. In any country, the entrepreneur is the primary driver of economic activities (Vashishtha, 2021). Over the last few decades, entrepreneurship has spread rapidly over the world (Catalin, George & Razvan, 2017). The major roles of social development, economic growth, competitiveness, innovation, job creation, and poverty relief in any country purely depend

on the entrepreneurship. The practice of starting a new firm to produce and sell creative, unique, or existing goods or services is defined as the entrepreneurship and SMEs can be seen as a platform for entrepreneurs to do so (Kaluarachchige et al., 2021a).

Entrepreneurship is a well-known practice in the tourism business. Entrepreneurial practices are encouraged as a result of tourism development in any country. Tourism is one of the largest industries that the possibilities are endless, when

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it comes to entrepreneurial prospects as a tourist business. It holds enormous potential for empowering communities (Sikari, 2018). Entrepreneurial success among homestay entrepreneurs is positively correlated with community participation (Yong & Hassan, 2017). Competent entrepreneurship is important to grow the community based tourism (Witchayakawin et al., 2020). Homestay is the best community based tourism programme, and it is also a promising business opportunity for Sri Lankan entrepreneurs (Ranasinghe, 2015).

Community based tourism enables communities to participate in tourism by operating homestays as alternative lodging enterprises for community groups interested in participating in tourism activities (Junaid et al., 2019). Homestays have grown more popular in many countries across the world as a way for travellers to interact with social systems, local culture, languages, lifestyles and people while also assisting communities in improving their socioeconomic condition through tourism (Wijesundara & Gnanapala, 2015). Homestay is another type of tourism lodging that allows visitors to stay with local families in the location and learn about their local style (Ahmad et al., 2019).

The government in many of the less developed and developing countries take strategic actions to link the local community to the tourism sector with the aim of ensuring more competitive advantages and sustainable development in the tourism sector. According to Witchayakawin et al. (2020) community based tourism development should be focused on various factors such as entrepreneurial competencies. Sri Lanka Tourism Development Authority (SLTDA) empowers the local public to employ their capabilities and talent converting them as entrepreneurs in tourism sector in Sri Lanka (Sriyani, 2018). There are some challenges as well as more opportunities in Sri Lanka's community based tourism (Ranasinghe et al., 2020). The goal of this investigation is to measure the influence of entrepreneurial competencies on the dynamic capabilities towards performance of entrepreneurs in Sri Lanka's community based tourism.

RESEARCH PROBLEM

Consistent with recent researches held in the context of Sri Lanka, the most of homestay businesses are unsuccessful (Sriyani, 2018; Wijesundara & Gnanapala, 2015; Ranasinghe, 2015). According to Sriyani (2018), even though the homestays are popular in Sri Lanka, major issues may obstruct the development and existence of homestays. Homestay business does not operate productively in Sri Lanka like a supernumerary tourism service (Wijesundara & Gnanapala, 2015). According to a current study held by Croos et al. (2020) in the context of Sri Lanka, there is a significant potential to establish community based tourism by overcoming the constraints. In Sri Lanka, there are increasing possibilities for community based tourism (Sumithra, 2020; Ranasinghe, et al., 2020; Madushi,

et al., 2020), but there are also certain obstacles and issues (Jayasundara et al., 2020).

Even if entrepreneurial competencies and dynamic capabilities have been studied separately in relation to SME performance, only a few studies have concentrated on the theoretical blend of entrepreneurial competencies and dynamic capabilities in a single research study (Kaluarachchige et al., 2021a). According to Hashim, Raza and Minai (2018), the link between entrepreneur competencies and SME performance is instable as the results of studies on this topic are contradictory. Mitchelmore and Rowley (2013) stated that there would be a foundation for further research into entrepreneur competencies that influence small business success. According to Parida et al. (2016), more research is needed to recognize the dynamic capacities in order to refine the remaining body of knowledge.

Furthermore, there may be a gap in knowledge with regard to entrepreneurial competencies (Yusuff et al., 2016). As a result, more research into the association between entrepreneur competency and entrepreneurial success is required (Hashim, Raza & Minai, 2018). Small business success is critical to economic progress, particularly in underdeveloped nations where entrepreneurship research is scarce (Hyder & Lussier, 2016; Coder et al., 2017). Thus, conducting studies on small businesses in the field of entrepreneurship would be critical (Hashim, Raza & Minai, 2018). Similar studies should be performed to corroborate these findings, and related research should be conducted specially in poor nations (Ibrahim & Abu, 2020).

REVIEW OF LITERATURE

This study is based on the Resource Based View (RBV) theory and Dynamic Capability View (DCV) theory. RBV emphasizes the assets or resources of the firm as the most important factors of competitive advantage and performance. Resources have four aspects for sustainable advantage due to the RBV such as rare, valuable, non-substitutable and inimitable (Barney, 1991). There are tangible and intangible resources in nature (Wernerfelt, 1984). Human capital characteristics can be considered as competencies which are treated as intangible resources by RBV (Barney, 1991). Small firms must trust in traits, skills and capabilities to develop them as a pool of internal distinctive resources (Lerner & Almor, 2002). Entrepreneurial competencies are distinctive managerial qualities that are considered as resources for generating extraordinary firm performance according to RBV application in the context of small businesses. The ability of an organization to actively adapt its resource base is known as dynamic capability. This theory has created a framework that explains how to build, sustain, and improve distinct and difficult-to-replicate advantages (Chmielewski & Paladino, 2007; Teece et al., 1997). From the firm's resource-based perspective, dynamic capabilities have been built (Verona, 1999). According to Teece et al.

(1997), resources are stable and stagnant whereas DCV theory highlights the need to renew, procure, develop and reorganize their resources which leads to resource mobilization in the long run as per the RBV theory. As a result, the resource based view cannot illuminate the behaviour of firms and performance over time in dynamic environment.

Entrepreneurial competencies refer to the characteristics possessed by entrepreneurs in order to perform their functions effectively; knowledge, skill and motives/attitude are the major components of competencies (Sajeena, 2020). Besides, entrepreneurial competencies are the unique abilities and skills that drive an organization to perform exceptionally well (Aliyu, 2017). Entrepreneurial competencies are defined as a set of talents which are contribute to an efficacious business venture (Kaluarachchige et al., 2021b). To date, researchers have looked into various types of entrepreneurial competencies (Competency Clusters) including opportunity, organizing, relationship, commitment, strategic, conceptual, analytical, operational, human, learning, personal, technical, ethical, familism, knowledge, networking, and so on (Man et al., 2002; Man, 2001; Ahmad, 2007; Man, Lau & Chan, 2002; Aruni, Akira & Hironori, 2014; Noor, Hasliza & Siti, 2010). Tehseen and Ramayah (2015) defined entrepreneurial competencies as a valuable asset that improves business performance and aids in achieving sustainable competitive advantage. Entrepreneurial competencies are the most valuable and intangible resources associated with business success among the most important resources of enterprises (Sozuer et al., 2017; Tehseen & Ramayah, 2015). When there are entrepreneurial competencies, this supportive action will eventually lead to business success. Entrepreneurial activities have been proven to be very important since they can drive growth that is driven by business performance (Sok et al., 2017). Furthermore, existing studies have revealed the importance of entrepreneurial competencies for business success, particularly in small and medium-sized enterprises (Sajilan & Tehseen, 2015). Similarly, Wahid et al. (2017) stated that one of the major issues that small businesses must face in order to survive in the market is a lack of competency.

Dynamic capabilities are a unified approach for businesses to integrate, build, and reconfigure external and internal capabilities in order to overcome the effects of rapidly changing environments to gain consistent returns over competitors (Wang et al., 2015; Lagat & Frankwick, 2017). Consistent with Khan et al. (2019) dynamic capabilities comprise changes and adaptation because these capabilities can be considered as a modifier for transforming resources into higher performance by gaining a competitive advantage. On organizational performance, dynamic capacities with their aspects of sensing, seizing, and reconfiguring have a considerable impact (Al-Qahtani, 2020). Because dynamic capabilities are defined as integrating, reconfiguring, and organizing a company's current resources and capabilities, they serve as a foundation for business performance and

provide a sustainable competitive advantage (Chrysochoidis et al., 2016). The dynamic capabilities can effectively leverage the competitive combination of organizational resources to improve performance (Jiang & Kortmann, 2014). Likewise, Lin and Wu (2014) proposed that the dynamic capabilities are seen as an adaptor for converting resources into the performance, because of their valued resource characteristics. Dynamic capabilities have an impact on entrepreneurial firms (Tutueanu & Serban, 2013), and Wang et al., (2015) claimed that dynamic capabilities are essential for their success.

Khan et al. (2019) specified that dynamic capabilities affect small business performance positively. Besides, there is a link between dynamic capacities and the performance of SMEs (Fitriati et al., 2020). Even in a volatile business environment, a firm's performance can be considerably improved if it develops dynamic capabilities (Mukhtar, Baloch & Khattak, 2019). Hashim, Raza and Minai (2018) established the importance of dynamic capability as a mediating relationship between competencies of entrepreneurs and business success by confirming a mediating role of dynamic capability in advancing business performance. The mediating role of dynamic capability on the connection between entrepreneurial competencies and business performance was also investigated by Nasuredin et al. (2016), and the results showed that dynamic capabilities are a key predictor to improve the link between competencies of entrepreneurs and firm performance. However, Hashim, Raza and Minai (2018) claimed that there is a need for more research on dynamic capacities as a missing mediating relationship in the link between competencies of entrepreneurs and business performance.

RESEARCH METHODOLOGY

Resource Based View (RBV) theory and Dynamic Capability View (DCV) theory are the foundation for the current study. Entrepreneurial competency is a predictor for homestay entrepreneur performance while dynamic capability is the mediator to the association between competencies of entrepreneurs and the performance of homestay. Strategic, commitment, conceptual, organizing, relationship and opportunity competencies are the key indicators for entrepreneurial competencies. Seizing, Sensing and reconfiguration capabilities are the indicators of dynamic capabilities. Financial and strategic factors are indicators for the entrepreneur performance. A structured questionnaire was employed as the study instrument to collect primary data in the deductive approach to research.

All entrepreneurs of homestay businesses that function as a practice of community based tourism, and registered with the Sri Lanka Tourism Development Authority (SLTDA) make up the population of the study. To the month of March 2020, there were 645 homestay units registered with the SLTDA. Individual entrepreneurs of homestay units were taken as the unit of analysis in the current study. According to Krejcie and

Morgan (1970); Cohen (1969) as cited in Sekaran and Booiage (2016), the minimum sample size should be 242 registered homestay entrepreneurs. The response rates of questionnaire surveys in similar entrepreneurial studies conducted in 2020 are 88% (Ibrahim & Abu, 2020), 84% (Sulistyo & Ayuni, 2020). The response rates in 2019 are 89% (Tehseen et al., 2019), 75% (Khan et al., 2019), 74% (Oni, Agbobli & Iwu, 2019; Alfalih & Ragmoun, 2019), 77% (Ahmad et al., 2019) etc. Based on the above recent response rates in 2020 and 2019, the average response rate is 80%. With the consideration of this 80% average response rate, the total sample size would be 302. The disproportionate stratified random sample approach was used to obtain data covering all districts in Sri Lanka. 261 questionnaires were returned and the final sample was confirmed as 252 homestay entrepreneurs after omitting incomplete questionnaires. The current study has an 83 percent response rate.

DATA ANALYSIS

In the Confirmatory Factor Analysis (CFA), data were analysed using Structural Equation Modelling (SEM) technique including

two stages (Measurement model and Structural model).

Measuring model has been created using 21 elements that were linked to the final outcome of CFA [Entrepreneurial Competencies (EC) – 9 items, Dynamic Capability (DC) – 6 items, Homestay Performance (HP) – 6 items, and so on.] The Table 1 shows the recommended values for fit indices and model fit statistics.

Table 1: Outcome of Measurement Model

| Fit Indices | Accepted Values | Outcome | Model Evaluation |
|---------------|-----------------|---------|------------------|
| Chi square/df | <3 | 2.820 | Good Fit |
| CFI | >0.9 | 0.867 | Good Fit |
| RMSEA | <0.08 | 0.085 | Good Fit |

The fit indices of Chi square, CFI and RMSEA are evaluated in good fit with the suggested values. Hence, 21 items of the final measurement model fit satisfactorily with the data. Furthermore, this emphasized that all items show a good contribution to the operationalization of the constructs.

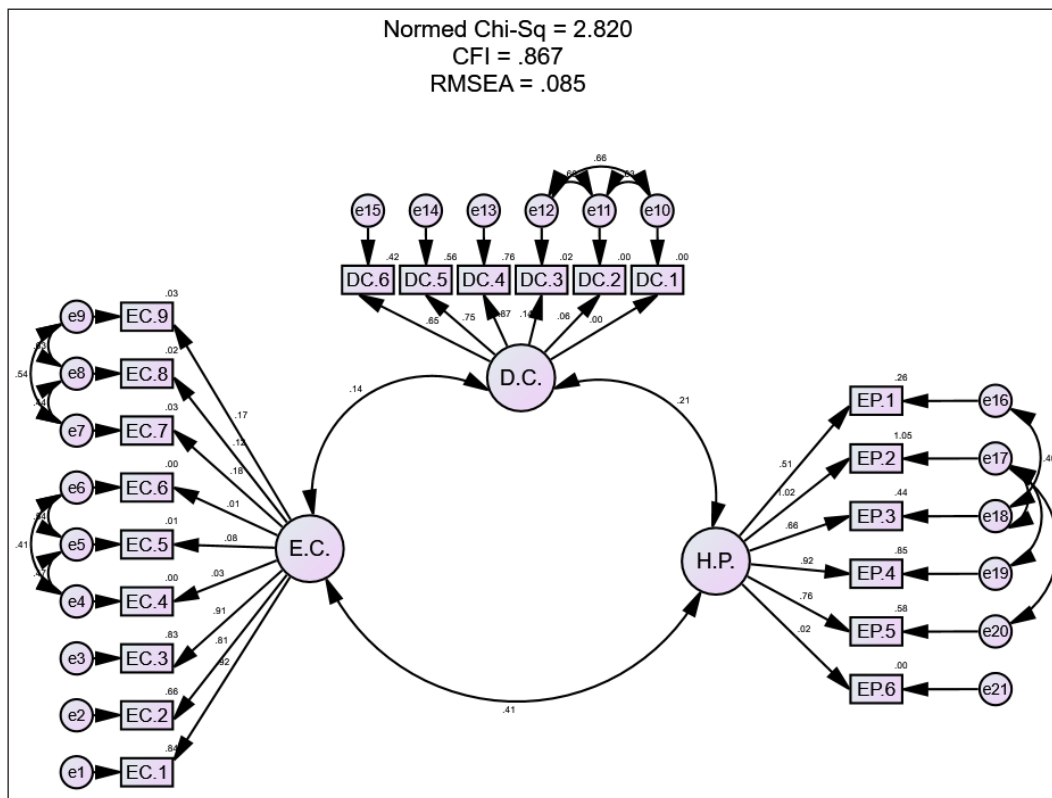


Fig. 1: Measurement Model

The co-variances of measurement model are shown in Table 02.

Table 2: Co-Variiances of Measurement Model

| | | | Estimate | S.E. | C.R. | P | Correlation |
|------|------|------|----------|------|-------|------|-------------|
| E.C. | <--> | E.O. | .116 | .075 | 1.540 | .123 | .106 |
| E.C. | <--> | E.E. | .035 | .029 | 1.220 | .222 | .095 |
| E.C. | <--> | D.C. | .135 | .069 | 1.950 | .051 | .142 |
| E.C. | <--> | H.P. | .308 | .061 | 5.064 | *** | .411 |
| H.P. | <--> | D.C. | .156 | .046 | 3.374 | *** | .244 |

This section explained the first stage which is validation of measurement model, and structural model is considered and

given as the second stage of Structural Equation Modell (Hair et al., 2006; Kline, 2005) as below:

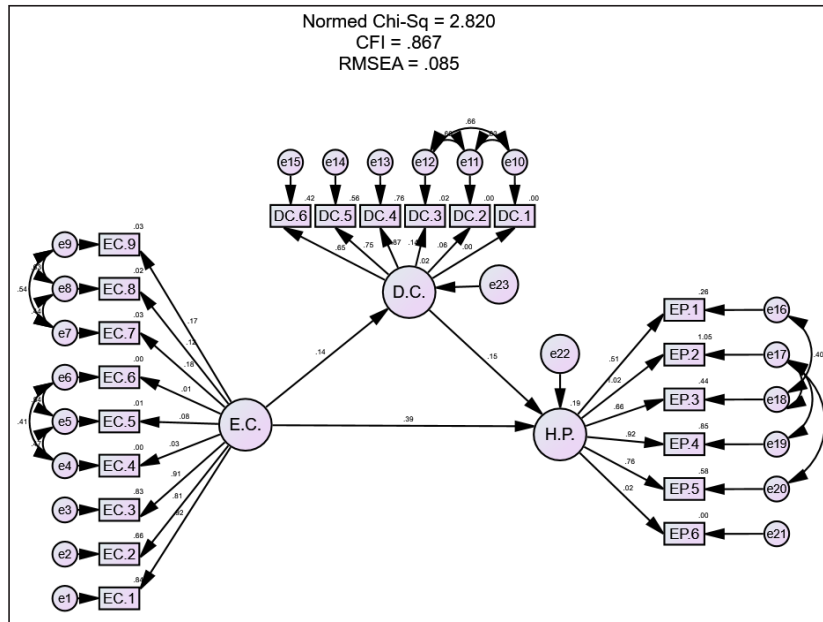


Fig. 2: Structural Model

The Table 3 shows the outcome of the association between variables in the final structural model.

Before entering the mediator (Dynamic Capability) to the model, following results were received.

Table 3: Regression Weights of Structural Model

| | | | Unstd. Estimate | S.E. | C.R. | P | Std. Estimate |
|------|-------|------|-----------------|------|-------|------|---------------|
| D.C. | <---> | E.C. | .118 | .061 | 1.932 | .053 | .138 |
| H.P. | <---> | E.C. | .236 | .045 | 5.293 | *** | .357 |
| H.P. | <---> | D.C. | .146 | .048 | 3.079 | .002 | .188 |

As per above regression weights, entrepreneurial competencies significantly effect on dynamic capability (P <.05) and homestay performance (P <.01). Dynamic capability also significantly influences on the homestay performance (P <.01).

Table 4: Result without Mediator (DC)

| | | | Estimate | S.E. | C.R. | P | Significance |
|----|-------|----|----------|------|-------|-----|--------------|
| HP | <---> | EC | .248 | .045 | 5.494 | *** | Significant |

But, after entering mediator (DC) to the model, the results have been changed as below:

Table 5: Result with Mediator (DC)

| | Path | | Estimate | S.E. | C.R. | P | Significance |
|------|------|------|----------|------|-------|------|--------------|
| D.C. | <--- | E.C. | .118 | .061 | 1.932 | .053 | Significant |
| H.P. | <--- | E.C. | .236 | .045 | 5.293 | *** | Significant |
| H.P. | <--- | D.C. | .146 | .048 | 3.079 | .002 | Significant |

When modelling the simple effect of Entrepreneurial Competencies on Homestay Performance, the direct effect shown in the Table 4 shows B is 0.248 and it has a significant effect on Homestay Performance (p-value < 0.001). It indicates that there is a direct association between Entrepreneur Competencies and Homestay Performance. Secondly, when the mediator variable (Dynamic Capability) put into the model, the direct effect of Entrepreneurial Competencies on Homestay Performance is reduced. The output in the Table 5 shows B is reduced to 0.236 when Dynamic Capability entered to the model. Still the effect of Entrepreneurial Competencies on Homestay Performance is significant (p > 0.001). And, the effect of Entrepreneurial Competencies on Dynamic Capability is significant (p > 0.005). The effect of Dynamic Capability on Homestay Performance is significant (p > 0.001). Here, the requirement for partial mediation is met.

The result of the mediator test was re-confirmed using bootstrapping. This method is specially used for calculating the indirect value of the mediator. As per the Table 6, partial mediation of Dynamic Capability between Entrepreneurial Competencies and Homestay Performance, was reconfirmed.

Table 6: The Significance of Direct and Indirect Effects - Two Tailed Significance

| Hypothesis | | | Direct Effect | Indirect Effect | Outcome |
|------------|----|----|---------------|-----------------|-------------------|
| EC | DC | HP | 0.260* | 0.075 * | Partial Mediation |

* = p < 0.05, ns = Not Significant.

CONCLUSION

Entrepreneurial competencies have a considerable impact on dynamic capability. The performance of a homestay is also influenced by dynamic capability. Both entrepreneurial competencies and dynamic capabilities affect homestay performance. Furthermore, this study revealed that dynamic capabilities mediate the association between entrepreneurial competencies and homestay performance.

For homestay tourism operations to reach high levels of success, entrepreneurial competencies should be improved. To improve homestay performance, training programmes are to be implemented promoting entrepreneurial competencies. The dynamic capabilities approach must be implemented in homestay firms for their success. Entrepreneurial competencies are necessary for dynamic capabilities in homestay tourism to attain high levels of performance. The findings aid the government to grow the homestay tourism enterprises. Homestay can be used to build community based tourism entrepreneurs in Sri Lanka by allowing them to use their competencies in their local communities to contribute significantly to the Sri Lanka economy. Because the current study has concentrated on the competencies of entrepreneurs, the findings would be useful for trainers in entrepreneurship development. The study emphasized the significance of acquiring and developing competencies by entrepreneurs in order to survive and prosper in the homestay tourist industry.

This study has focused only a few entrepreneurial competencies even though more competencies are described in the literature. Those all competencies can be considered in further research. This study has focused only on homestay units in community based tourism (CBT). But there are other types of CBT practices such as boutique villas, boutique hotel, bungalow, guest house, heritage bungalow, heritage homes, hotels, rented apartments, rented homes, tourism resorts etc. which are registered in Sri Lanka Tourism Development Authority (SLTDA). Further researchers can conduct entrepreneurial research in different types of CBT practices. Similar studies focused on community based tourism should be carried out in different countries. This is a mostly deductive method study and researchers recommend conducting an inductive method study by using qualitative methodologies in the same research area.

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